

THE ECONOMIC IMPACTS OF THE CRUISE INDUSTRY IN ANCHORAGE 1999

Prepared for:

North West CruiseShip Association
MAIN FLOOR 1111 W. HASTINGS STREET
VANCOUVER, BC V6E2J3
CANADA



416 Harris Street, Suite 301
Juneau, Alaska 99801

•
P.O. Box 21009
Juneau, Alaska 99802

•
1400 West Benson Boulevard, Suite 150
Anchorage, Alaska 99503

February 2001

***THE ECONOMIC IMPACTS OF
THE CRUISE INDUSTRY IN
ANCHORAGE
1999***

Prepared for:

***North West CruiseShip Association
MAIN FLOOR 1111 W. HASTINGS STREET
VANCOUVER, BC V6E2J3
CANADA***

Prepared by:



Juneau • Anchorage

February 2001

Table of Contents

Executive Summary.....	1
Introduction.....	1
Summary of Anchorage Cruise Industry Impacts	2
Cruise Industry Direct Expenditures	3
Direct Employment.....	4
Indirect Benefits.....	4
Scope of Work and Methodology	5
Scope of Work.....	5
Methodology.....	5
Anchorage Cruise Industry.....	9
Anchorage Cruise Industry Profile.....	9
Current cruise capacity and traffic.....	10
Anchorage Cruise Passenger Travel Patterns	11
Anchorage Cruise Company Facilities	13
Cruise Industry Expenditures.....	14
Expenditures Overview	14
Cruise Industry Purchases of Goods and Services	14
Cruise-Related Airport Expenditures	16
Taxes and Fees.....	16
Payroll	18
Cruise Passenger Expenditures	18
Additional Economic Impacts	20
Direct Employment.....	21
Indirect Impacts	22
Output	22
Earnings	22
Employment	22
Impacts by Sectors of the Economy	23
Leakage of Cruise-Related Spending	25

Introduction.....	25
Wage Leakage.....	25
Cost-of-Goods-Sold Leakage	26
Service Leakage	28
Cruise Industry Outlook	29
Cruise capacity and traffic outlook	30
Appendix.....	33

Introduction

The purpose of this study is to quantify the economic impacts of the Alaska cruise industry on the Anchorage area economy during calendar year 1999, the most recent year of available data. While Anchorage is not a cruise port of call, it is a central and important stop on cruise customers' itineraries. Nearly one-half of the Alaska cruise industry's 600,000 customers visited Anchorage in 1999.

These Alaska cruise visitors who experience Anchorage primarily use a cruise ship calling at Seward to enter or exit Alaska and fly the opposite direction, touring mainland Alaska before or after their cruise leg. A small portion of cruise visitors reaches Anchorage via motorcoach from ships calling at Skagway. The majority of Anchorage cruise visitors are on packaged land tours that include Anchorage, Denali and Fairbanks. This segment is called the cruise/tour market. In addition, a substantial number of cruise customers use Anchorage as their arrival or departure location in Alaska before or after their one-way Alaska cruise but do not embark on a packaged land tour. This segment is termed the cruise/air market. Most of these cruise/air people do not spend extra time in Alaska on their own, though some are known to do so.

This report details the economic impacts of the cruise industry in Anchorage, focusing on the four major economic impacts:

- Cruise industry direct expenditures on the purchase of goods and services (such as hotel rooms, and ground transportation), taxes and fees, payroll, and contributions to membership and charitable organizations.
- Direct employment impacts of cruise companies.
- Direct out-of-pocket expenditures by cruise customers that are not part of the tour package.
- Indirect economic impacts of cruise passenger air transportation to and from Alaska are calculated separately from other cruise industry spending. This analysis is based on a recent University of Alaska Anchorage Institute of Social and Economic Research study of Anchorage International Airport and McDowell Group visitor data.
- Indirect economic impacts of output, earnings and employment. These indirect impacts are estimated using accepted Alaska econometric model multipliers.

While eight large cruise lines called at Seward in 1999, two dominated the market. Holland America Westours and Princess Tours carried three-quarters of the cruise passengers to Seward, and generated most of the cruise tour and cruise air market, carrying both their own customers and the customers of other cruise lines that do have related tour operations. Most of the impacts documented in this study are the result of these two companies.

Carnival Cruises, Celebrity, Crystal Cruises, Norwegian Cruise Lines, Royal Caribbean, Radisson Seven Seas and World Explorer Cruises also operate in the market. Alaska Sightseeing/Cruise West is the dominant cruise tour company in the small cruise ship market.

The most common cruise tour package includes arriving on a cruise ship across the Gulf of Alaska to the Port of Seward, travel to Anchorage, and either continuing via rail or bus to Denali and Fairbanks or departing Alaska through the Ted Stevens Anchorage International Airport. The reverse or variants of this itinerary are available. Most of these cruise tour packages contain one overnight stay in Anchorage. Some itineraries include city tours of the Anchorage attractions, such as the Alaska Native Heritage Center.

The study focuses on the activity the industry generates related to their cruise itineraries. Cruise companies' activities from investments made in local hotels, RV parks or in land-based itineraries that did not include a cruise portion were not considered in this analysis. The scope of the study is strictly limited to the actual cruise customer traffic affecting Anchorage.

Summary of Anchorage Cruise Industry Impacts

Combining the direct expenditures made by the cruise industry with the additional spending for cruise passenger air transportation through the Ted Stevens Anchorage International Airport, the total cruise industry direct expenditures in Anchorage was \$103 million. The impact of this direct spending was an additional \$65 million in indirect output and \$51 million in payroll. A total of 2,040 jobs were generated by cruise industry activity in Anchorage. A summary of the cruise industry's impact analysis on the Anchorage economy is found in the table below.

Table 1:
Summary of Anchorage Cruise Industry Economic Impacts (1999)

	Cruise Spending	Cruise Airport Impacts	Total Cruise Impacts
Direct Cruise Impacts	\$82 million	\$21 million	\$103 million
Indirect Cruise Impacts	\$50 million	\$15 million	\$65 million
Total Cruise Impacts	\$132 million	\$36 million	\$168 million
Payroll	\$42 million	\$9 million	\$51 million
Jobs	1,780	260	2,040

Cruise Industry Direct Expenditures

In 1999, the cruise industry spent \$103 million in direct expenditures in Anchorage. These expenditures included direct impacts on the purchase of goods and services, payroll for the industry's employees, cruise passenger air travel to or from the Ted Stevens Anchorage International Airport, government revenue, and the estimated spending of cruise passengers during their time in Anchorage.

The components of this total are \$45 million on goods and services, \$21 million for Ted Stevens Anchorage International Airport activity, \$2 million in taxes and fees, \$7 million in payroll, and \$28 million in out-of-pocket cruise customer spending in Anchorage.

Purchases of Goods and Services

In the process of providing its services in Anchorage, the cruise industry spent \$45 million on goods and services during 1999. The spending by industry sector is as follows:

- \$12.2 million for transportation, communication and utilities.
- \$5.3 million for wholesale and retail trade.
- \$0.6 million for finance, insurance, and real estate services.
- \$3.1 million for services.
- \$23.5 million for hotels and other types of accommodations.
- \$0.4 million for membership and charitable contributions.

Cruise-Related Airport Expenditures

A significant impact to the Anchorage economy is the entry or exit by air by virtually all cruise visitors. It is not possible to report the portion of an air ticket purchased by a cruise company on behalf of their passengers that impacts the Anchorage economy. However, this amount is estimated through our economic modeling methods. Implied is a cruise industry direct expenditure of \$21 million in air transportation services. This in turn generates \$15 million in direct output for a total of \$36 million. Of this \$36 million, earnings impacts total \$9 million and employment impacts 260 jobs.

Taxes and Fees

The cruise industry directly paid approximately \$2.2 million to local, state and federal government in taxes and fees charged for services. Government revenue generated by cruise industry activity in Anchorage was:

- \$1.9 million in Municipality of Anchorage bed tax.
- \$137,000 in municipal property and real estate tax.
- \$147,000 in state revenue.
- \$17,000 in federal revenue.

Payroll

The cruise industry reported spending \$7 million on its payroll in Anchorage.

Cruise Passenger Expenditures

Using a figure of \$100 per passenger (based on estimated update of previous McDowell Group research), cruise passenger out-of-pocket spending in Anchorage amounted to an estimated \$28 million.

Membership Organizations and Charitable Contributions

The industry contributed \$224,000 in-kind and \$140,000 in cash to more than 80 non-profit organizations in Anchorage. In addition, the cruise industry supported several local civic and tourism organizations. An estimated \$66,000 was spent on these memberships.

Direct Employment

The employment of the cruise industry is largely seasonal and fluctuates dramatically. Direct industry summer employment peaks with approximately 600 jobs. Spring, fall and winter employment dips to a seasonal low of 50 jobs. These employment numbers include full-time, part-time and seasonal jobs. Annual average direct employment is estimated at 280, assuming an average annual salary of \$25,000 for cruise industry employment.

Indirect Benefits

Using multipliers developed by University of Alaska Anchorage's Institute of Social and Economic Research, (and verified by McDowell Group's calculations from the IMPLAN model) the following indirect benefits of the direct spending of the cruise industry were estimated:

Output

The "output" figure refers to the value of the cruise industry's total production. It is estimated that \$103 million in direct expenditures resulted in \$168 million in total economic activity. In other words, the direct cruise spending generates an additional \$65 million of indirect economic activity.

Earnings

The "earnings" estimates shows that \$103 million in direct expenditures generated \$51 million in direct and indirect wages and salaries throughout the Anchorage economy.

Employment

The cruise industry's direct expenditures of \$103 million generated 2,040 jobs throughout the economy.

Scope of Work and Methodology

Scope of Work

The purpose of this study is to measure the economic impact of the cruise industry and its passengers in 1999 on Anchorage. The study includes:

- An overview of the cruise lines and their passengers' activities in Anchorage
- Direct cruise industry spending of the purchase of goods and services in Anchorage
- Total impacts of cruise industry expenditures for cruise passenger air transportation to and from Alaska
- Local, state and federal government revenues, through taxes and fees, from the cruise industry
- Direct average annual employment and total annual payroll for 1999 of the cruise industry
- Cruise industry charitable donations (in-kind and cash donations) and membership fees
- Estimates of total cruise visitor spending, not including their packaged tour purchases
- Indirect expenditures, earnings and employment from cruise industry and visitor spending by sector
- Discussion of leakage of visitor dollars from the Anchorage economy
- Outlook for future economic impact by the cruise industry

Methodology

There were several methodologies used to determine the economic impact of the cruise industry on Anchorage. These methodologies include primary research such as data collection and executive interviews with cruise industry representatives, vendors, local, and state government officials. The economic data collected came from several sources. The following is a breakout of the methodology and sources of information.

Cruise Industry Expenditures

In order to estimate cruise industry spending, the study team contacted all cruise companies crossing the Gulf of Alaska to Seward. Eight of the nine large cruise ship companies representing 98 percent of the Anchorage cruise market responded. In cases where cruise lines were non-responsive or the information was not readily available, estimates were made of their expenditures using known passenger counts and data.

The cruise companies were asked to provide the study team with their vendor lists by amount for 1999. This information was compiled for all respondents. This compilation was then separated into spending for five sectors. These sectors include:

- Transportation (air, motorized, rail), communication, and utilities.
- Wholesale and retail.
- Finance, insurance and real estate.
- Services
- Hotels and other accommodations.

The cruise industry also provided information on their charitable donations (both in-kind and cash) and the membership fees paid to local organizations.

Data on expenditures of cruise passengers on domestic or international air carriers and the computation of a percent of these expenditures to Anchorage was not available. Therefore, the study team determined the impact of the cruise industry passenger domestic airline spending by using employment and payroll impact figures produced in the University of Alaska Anchorage Institute of Social and Economic Research (ISER) report, *Anchorage International Airport 1998: Economic Significance*. The study team applied McDowell Group visitor data to ISER's employment and payroll impact figures to measure the cruise industry passenger impact.

Government Revenue

Government revenue, in the form of fees and taxes, was collected directly from the cruise industry. This revenue data was collected for local, state, and federal governments. The Municipality of Anchorage was contacted and provided additional data on property and real estate taxes paid by the cruise industry for cruise-related activity in Anchorage.

Anchorage's bed tax of 8 percent was applied to the total hotel expenditures made by the cruise industry. This approach allowed the study team to make an estimate of the portion of bed tax generated from cruise passengers.

Revenue to the Alaska Railroad was obtained directly from the cruise industry. Estimated impact of the cruise industry passenger's use of the Ted Stevens Anchorage International Airport was determined from documents provided by the Airport.

Employment and Payroll

Direct employment data was collected from the cruise industry. These companies provided information on the type of jobs, and the total number of jobs and payroll spent on their operations in Anchorage in 1999. The cruise industry did not provide the study team with a breakout of its full-time, part-time, year-round, and seasonal staff. Due to the seasonal nature of the tourism industry, further employment data was needed. The study team used the average monthly employment data supplied by the Alaska Department of Labor and Workforce Development to establish seasonal high and low employment figures. No full-time equivalents were calculated because not enough data was available to establish which jobs were part-time, full-time or seasonal. All payroll data came directly from the cruise industry. The industry did not provide a breakout of salary and benefits.

Estimated Visitor Expenditures

Visitor expenditures do not include accommodation and transportation spending because this spending was captured in the cruise industry direct expenditures.

For purposes of this study, visitor expenditures pertain to out-of-pocket expenses of cruise passengers during their time in Anchorage. These expenses may include food and beverages, gifts and souvenirs, clothing, or other personal spending. This estimation was derived from the 1993 Alaska Visitor Statistics Program (AVSP). While dated, this remains the only source of information on cruise passenger spending in Anchorage. The study team used four varied methodologies using the 1993 data and other analyses to determine a 1999 expenditure figure. All methodologies resulted in similar spending quantities. Because informational interviews indicated little change in spending patterns over the past five years, the study team chose the methodology that updated the 1993 AVSP cruise visitor expenditures to 1999 dollars using the Anchorage Consumer Price Index. This estimate was then multiplied with the estimated number of cruise-related visitors to Anchorage and resulted in a total visitor expenditure figure.

Indirect Economic Impacts

The study team examined the use of two different multipliers to calculate the indirect economic benefits of cruise industry and cruise passenger spending. These multipliers included the U.S. Department of Commerce Final Demand Regional Multipliers (RIMS II), and University of Alaska Anchorage Institute of Social and Economic Research's Final Demand Multipliers (Input-Output Model). Both multiplier models produced similar results. While both results are credible, the study team chose to report its analysis using the University of Alaska Anchorage Institute of Social and Economic Research's (ISER) Final Demand Multipliers. This choice was made because the study team felt the ISER multipliers were developed specific to the Alaska economy, while U.S. Department of Commerce model is merely modified for use in Alaska. To further verify the results of the analysis, the study team used the IMPLAN model. The IMPLAN model produced results similar to both the RIMS II and the ISER model.

The multiplier effect was calculated in the following way:

1. All cruise industry expenditures were attributed to their appropriate sector of the economy. Goods and services expenditures with all vendors were coded according to aggregated SIC categories to which the vendors belong.
2. Final Demand Multipliers for output, earnings and employment as computed by the Institute for Social and Economic Research were identified. These multipliers are specific to Alaska and specific to the sector in which money was spent.
3. To obtain estimates of indirect impact, expenditures in each sector were multiplied by the corresponding output and earnings multipliers. The impacts of categories were summed to obtain subtotals and a grand total.
4. Because the ISER employment multipliers were based on 1994 dollars, it was necessary to convert all expenditures from 1999 dollars to 1994 dollars. This was done by applying Anchorage CPI data. The CPI-adjusted expenditures were multiplied by the corresponding employment multipliers to obtain estimates of the number of jobs created. The impacts of categories were summed to obtain subtotals and a grand total.

Indirect and direct impacts were summed to obtain total impact. Dividing total impact by direct impact produces a multiplier.

Leakage of Cruise-related Dollars

“Leakage” refers to the money generated in a community that is not spent in the community, but is taken or spent elsewhere. While no specific field research was conducted and no specific calculations made, secondary research did provide some information on the nature of cruise-related economic leakage. Leakage is inherently accounted for by the use of economic multipliers. The original dollar is “turned over” in a series of transactions of decreasing amount as increasing leakage occurs in each successive exchange. The total of these decreasing amounts is termed a multiplier.

Cruise Industry Outlook

While no specific projections were made for the cruise industry and its impact on the Anchorage economy, secondary research provided estimates of expected growth from the industry as a whole in Alaska. Key informant interviews were held with cruise industry representatives to determine their investment schedules for both cruise and cruise/land tours that will affect Anchorage and the surrounding area.

Anchorage Cruise Industry Profile

While an occasional cruise ship docks in Anchorage, Seward is the primary port of call for Anchorage and the rest of the Southcentral Alaska cruise market. Almost all cruise passengers fly into or out of Ted Stevens Anchorage International Airport. They normally spend the night in Anchorage, and then passengers either begin or end their cruise at Ted Stevens Anchorage International Airport. Most cruises to Southcentral ports run on a seven-day schedule, on either a northbound or southbound schedule. A more detailed discussion of land tour and cruise itineraries appears later in this section.

Since Anchorage is routinely not a port destination, a review of Seward and Whittier departures and destinations provides the number of cruise visitors that impact the economy of Anchorage. The study team focused on passengers who spent time in Anchorage as part of a cruise and land package. Therefore, the volume of passengers does not include those passengers who may travel to Seward or Whittier for a day cruise. With the exception of the purchases of goods and services from Anchorage vendors, these cruises have minimal and little direct impact on Anchorage. Where possible, the study team tried to capture these expenditures.

Approximately, 274,290 cruise passengers were on a one-way cruise arriving or departing from Seward. It has been assumed by the study team that these passengers all traveled and spent some time in Anchorage.

**Table 2:
Total Seward Arrivals and Departures (1999)**

Embarking Passengers	Disembarking Passengers	Total Cruise Passengers
136,201	138,089	274,290

Source: Cruise Line Agencies of Alaska, Seward Office.

Conversations with small cruise ship companies indicate that 1,500 participate in a tour that includes Anchorage and Whittier. These combined with the Seward count total 275,790 cruise passengers that make up the Anchorage cruise market.

Cruising to Alaska has grown exponentially, particularly in recent years with the upgrading of new larger ships. Average ship capacity for 1999 was around 1,600, with some vessel capacities at or exceeding 2,000. In 1999 eight cruise companies comprised the large cruise line market in Anchorage. They are, in alphabetical order, Carnival Cruises, Celebrity (owned by Royal Caribbean), Crystal Cruises, Holland America Line (owned by Carnival), Norwegian Cruise Lines, Princess Cruises, Royal Caribbean, and World Explorer Cruises. Radisson Seven Seas introduced its *Seven Seas Navigator* in 2000.

Princess Cruises and Holland America are the two largest operators in Southcentral Alaska, accounting for about three-quarters of the cruise market. Both companies own and operate motor coaches and rail cars and transport their clients on extensive land tours in several regions of the state. Royal Caribbean plans to introduce its own coaches and rail cars in the 2002 season.

The portion of the small ship cruise companies examined included those companies that offered tour packages combining a stay in Anchorage and overnight cruise tours. There are many small players in this market (accommodating less than 10 people at a time). The most notable small cruise line is Alaska Sightseeing Tours (also known as Cruise West Inc.). It is estimated that 1,500 passengers travel through Anchorage as part of a Cruise West tour package. Combining with the passengers from Seward, it is estimated that total cruise passenger market in Anchorage in 1999 was 275,790 passengers.

Current cruise capacity and traffic

The Alaska cruise industry has developed primarily in Southeast Alaska with the establishment of Inside Passage cruises through British Columbia and Southeast Alaska. Alaska ports fall into several categories including primary and secondary ports. Primary cruise ports in Alaska are Ketchikan, Juneau and Skagway. Each of these hosted at least 90 percent of the cruise market in 1999. Secondary ports include Sitka, Haines, and Seward. Alternate ports include Valdez, Whittier, Wrangell and Petersburg. Occasionally cruise ships call on other ports such as Anchorage, Dutch Harbor, Kodiak, Yakutat and Homer, though these stops are not frequently included on cruise itineraries. Table 3 shows the significant difference between activity in Southeast and Southcentral ports.

Clearly Seward is the dominant Southcentral location. Whittier's port is a distant second to Seward. Ninety-seven percent of Whittier's cruise traffic is made up of day cruise tours in Prince William Sound. The table demonstrates the sporadic volumes of vessels visiting both Anchorage and Homer. One cruise line, Pacific Venus, included a stop at the Port of Anchorage in 1999. Many of the cruise passengers docking at a Southcentral port spend some time in Anchorage. A more detailed analysis of these travel patterns follows.

Table 3: Cruise Passenger Traffic Alaska Ports (1991 – 1999)

Ports of Call	1991	1992	1993	1994	1995	1996	1997	1998	1999
Southcentral Ports:									
Anchorage	4,996	4,093	4,169	3,153	4,208	6,711	none	13,269	930
Homer	8,000	15,000	n/a	n/a	3,500	2,800	3,500	4,000	none
Seward	93,000	102,000	115,000	158,000	137,000	230,000	208,900	280,500	280,200
Valdez	26,926	28,008	28,362	56,800	62,000	72,311	57,856	82,098	81,133
Whittier	85,000	78,216	25,000	n/a	32,000	40,000	49,533	50,080	51,453
Southeast Ports:									
Haines	45,000	20,000	25,000	48,740	75,292	93,000	105,197	152,230	148,815
Juneau	255,000	268,000	305,000	360,000	407,012	462,000	513,200	544,000	578,000
Ketchikan	198,000	263,046	319,000	379,000	380,041	400,000	480,688	551,108	541,381
Sitka	160,000	178,000	192,000	192,000	161,816	238,000	179,000	151,800	168,024
Skagway	142,407	150,978	194,006	202,943	252,808	299,651	433,764	488,520	521,118
Wrangell	19,000	70,000	55,000	70,000	55,000	65,000	55,000	55,000	50,000
Other Ports:									
Dutch Harbor	400	600	n/a	n/a	2,747	3,787	n/a	2,827	2,100

Source: Cruise Industry News, Annual 2000, Cruise Line Agencies of Alaska and McDowell Group compilations.

Anchorage Cruise Passenger Travel Patterns

Land Based Itineraries

Land tours are an important addition to the Alaska visitor cruise vacation. Land tours in Southcentral Alaska generally allow visitors both a city and wilderness experience. Either before or after their cruise, these visitors can select from a wide variety of tour options. The majority chooses either a day or half-day experience in Anchorage, including an overnight in a hotel.

Some tour options include spending time in Seward, experiencing day cruises in Prince William Sound, Resurrection Bay or Barry Arm, a trip to Portage Lake, or fly-in fishing experiences, and side trips to Valdez and Whittier. Time in Seward often includes a stop at the Alaska SeaLife Center or time to explore the city independently.

Other tour options include a gradual trek by motorcoach across the Kenai Peninsula north to Anchorage. Some cruisers spend time at noteworthy properties such as the Kenai Princess Lodge and the Westin Alyeska Prince Hotel. Princess Tours and Holland America Westours market both tour packages heavily. Visitors then travel to Anchorage and either have time to take a city tour or explore the city on their own. They overnight in the city. The next day they often move to another locale, such as Denali and Fairbanks.

Those heading to Denali usually ride the rail cars that are owned by Holland America Westours and Princess Tours. The rail cars are specifically designed for viewing with large windows and seating situated for the best visibility. Most of these visitors overnight in the Denali area and take trips into the park. Once these travelers have completed their Denali experience they continue on to Fairbanks (The reverse of this is also a common pattern). It is estimated that 218,200 cruise passengers ride the rails as part of their Alaska tour package.

Another land tour alternative includes traveling directly to Anchorage after disembarking in Seward by rail or by bus. Visitors arrive in Anchorage between noon and 2 P.M. These visitors spend the afternoon touring the city, visiting the sights, eating dinner and then overnighing in Anchorage at one of the hotels. Some spend an optional additional day in Anchorage, some fly directly out, and others travel to another part of the state such as Denali or Talkeetna.

The reverse of each of the above mentioned tour options is also available. Visitors fly into Anchorage and spend time there before traveling to other locations in the state and then south to Seward for a southbound cross-gulf cruise.

Most city tours include a loop that provides a descriptive tour of the downtown area highlighting historical changes and the progress made as the city grew. A stop at Ship Creek is included especially when salmon are running. The tour features a stop at the Alaska Native Heritage Center, now a leading attraction. It is singled out in promotional materials that include information about Anchorage. Some visitors tour the city on their own. Noteworthy sites include the Anchorage Museum of History and Art and the Alaska Experience Theatre. Shopping is also an added attraction.

Some itineraries include two nights in Anchorage, but this trend is changing to a single night stay. The reduction of nights in Anchorage is largely due to a change in tour patterns. Visitors are spending more time in wilderness locations outside of Anchorage than they did in the past.

In recent years a number of properties have been developed outside the Anchorage area. They are in wilderness settings and offer many opportunities for wildlife viewing. Wildlife and wilderness viewing is a key motivator for bringing visitors to Alaska. Locations outside the city environment are highly attractive and easily marketed by the cruise industry. Properties such as the Kenai Princess Wilderness Lodge, the Alyeska Prince, the Talkeetna Alaskan Lodge, Mt. McKinley Wilderness Lodge, Denali Princess Wilderness Lodge, and other independent lodges are luring cruise visitors away from Anchorage. The Talkeetna Alaskan Lodge is expanding and in 2002 Princess Tours will inaugurate another wilderness lodge in the Copper River area. These attractive destinations outside the Anchorage area will likely continue to draw visitors away from the city.

General Alaska Cruise Itineraries

Most cruise lines visiting Alaska offer a range of cruise options to passengers. The ships usually depart from Vancouver (San Francisco or Seattle, less commonly), sail up the Inside Passage, stopping at towns and geographical points of interest. Many ships travel across the Gulf of Alaska. Nearly all cruise ships visit the primary ports of Juneau, Ketchikan, and Skagway. The secondary ports of Seward, Sitka, and Haines receive around a third to a half of the passengers visiting the primary ports. The number of large cruise ships calling on Haines will drop to one, the *Northern Wind*, in the 2001 season. There are also several low-volume ports, visited by both large and small cruise ships: Wrangell, Petersburg, Whittier, Valdez, and Kake, are some of them. Glacier Bay is the most popular geographical point of interest, followed by the Hubbard Glacier, College Fjord, Misty Fjords, and Prince William Sound.

The cruises usually last between four to eight days, depending on the number of destinations. The vast majority of cruise passengers who arrive or depart in Seward cruise one-way and fly one-way, primarily from Anchorage. This allows for passengers to add a land portion to their Alaska vacation. Anchorage often is the entry or departure point to Alaska.

Anchorage Cruise Company Facilities

The major cruise companies with property and facilities in Anchorage in 1999 were Holland America Westours and Princess Tours. Holland America Westours through its subsidiary, Westours Motorcoaches, owns motor coaches and rail cars. Holland America owns two hotels in Anchorage, the Westmark Anchorage and the Westmark Inn-Anchorage. While not included as direct expenditures related to cruise activity, the Westmark Anchorage does serve cruise clientele and their economic activity at this hotel is captured in the hotel expenditures section of this analysis. Cruise passengers do not stay at the Westmark Inn-Anchorage, so no economic activity for the Inn was considered in this analysis.

Holland America Westours also leases a small amount of space at 510 L Street for its corporate administration and sales presence. In addition, there is a separate motor coach facility in the industrial part of town where motor coaches are maintained. They own and operate 64 motor coaches. Holland America Westours also leases space at the railroad for the rail side of its business. This facility houses their thirteen rail cars and the staff that maintains them. These rail cars are owned and operated by Holland America Westours. They pay pulling and maintenance fees under individually negotiated agreements with the Alaska Railroad.

Princess Tours has similar facilities in Anchorage. The company leases a motor coach barn and office space to house its motor coaches and maintenance staff. The office functions year-round and increases its staff for the busy cruise season. Princess Tours keeps an average of 100 motor coaches in Anchorage. They also own and operate rail cars that are wintered at the Alaska Railroad facility under a lease agreement with the railroad. Princess Tours also owns and operates an RV park and campground in Anchorage. Because the economic activity of the RV park and campground is not directly related to cruise-related activity, it was not included in this analysis.

Alaska Sightseeing Cruise also operates a small office year-round in Anchorage. They operate their own motor coaches and use Alaska Railroad cars for the rail portion of their land tours to Whittier and Denali.

Cruise Industry Expenditures

Expenditures Overview

Money spent by the cruise industry, its employees, and customers affect the Anchorage economy both directly and indirectly. Direct impacts include the money actually spent by the cruise industry in its normal business process. Direct impacts include:

- Expenditures for goods and services – the money the cruise industry spends on everything except payroll, including provisioning ships in Seward
- Cruise-related airport expenditures – the expenditures by cruise passengers for air transportation to or from Anchorage, and the portion of these expenditures that can be attributed to the Anchorage economy.
- Payroll – the money the cruise industry spends on its employees
- Taxes and Fees – the money the cruise industry pays to government
- Customer expenditures – the money spent by those who visit Anchorage during a cruise tour of Alaska

The cruise industry's 1999 direct expenditure in Anchorage was \$103 million.

Indirect spending is sometimes referred to as a “ripple effect” or a “multiplier effect.” In the cruise industry, its employees and customers spend money with Anchorage businesses; those businesses employ others and purchase goods and services; this in turn generates additional jobs and expenditures. The repeated rounds of spending produce a multiplier effect that increases the direct impact by a substantial amount as shown in the *Indirect Benefits* section of this study.

A table showing all expenditures, both direct and indirect, is found in the Appendix.

Cruise Industry Purchases of Goods and Services

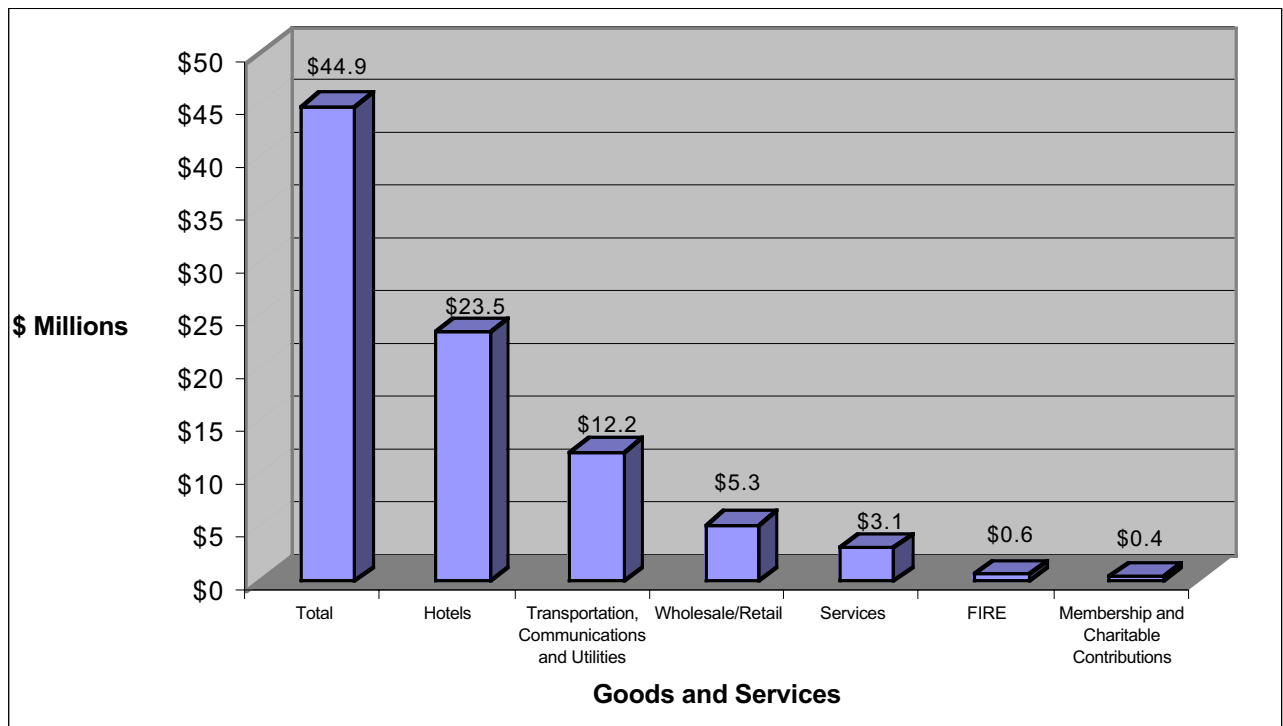
In the process of providing its services in Anchorage, the cruise industry spent approximately \$45 million on goods and services during 1999. This amount includes expenditures for capital projects and for operating budgets.

The study team requested the cruise industry supply a list of expenditures paid to vendors in Anchorage. It identified Anchorage expenditures, cross-matched these expenditures with standard industrialization codes (SIC) and categorized the industry sector in which expenditures occurred.

The goods and services expenditures by sectors were aggregated into the following categories:

- Transportation (all modes, including rail, air, motor freight and warehousing, trucking, car, and bus), communication service, and utilities (gas, electric, water, and sanitation). All air expenditures with Alaska regional air carriers (i.e., Era Aviation, Peninsula Airways, etc.) were attributed to Anchorage spending. Due to lack of data, air expenditures by the cruise passengers on domestic or international air to come to or leave Anchorage is not included in this category. Estimation of the impact of domestic and international air expenditures is examined under the indirect benefits section of this report. Expenditures with the Alaska Railroad are included in this category. Total transportation direct expenditures were \$12.2 million.
- Wholesale and Retail (food, beverages, furniture, fixtures, liquor, giftware, office supplies, ship provisioning, etc.). Total wholesale and retail direct spending was \$5.3 million.
- Finance, insurance, and real estate (FIRE) services. Total FIRE direct spending was \$0.6 million.
- Services (amusements, business, professional, health, eating and drinking establishments, and miscellaneous services). Total service spending was \$3.1 million.
- Hotels – hotels, motels, resorts, and other lodging accommodation. The total spending for accommodations was \$23.5 million.
- Membership and charitable contributions. The total spending for membership organization and charitable contributions was \$0.4 million

**Graph 1:
1999 Cruise Industry's Purchase of Anchorage Goods and Services, \$Millions**



Cruise-Related Airport Expenditures

A significant impact to the Anchorage economy is the entry or exit by air by virtually all cruise visitors. It is not possible to report the portion of an air ticket purchased by a cruise company on behalf of their passengers that impacts the Anchorage economy. However, this amount is estimated through our economic modeling methods. Implied is a cruise industry direct expenditure of \$21 million in air transportation services. Further discussion of this analysis is found in the *Indirect Benefits* section of this report.

Taxes and Fees

The cruise industry pays taxes and fees directly to local, state and federal governments. While it is reasonable to assume that local taxes have local impact, the same cannot apply to state and federal payments. Total government revenue generated by the cruise industry in Anchorage was \$2.2 million. Indirect impacts on direct expenditures (e.g., hotel expenditures, other vendor spending) on taxes and fees are captured through the multiplier effect.

Municipal taxes

Local taxes paid by the industry include bed tax, and real estate and property tax. According to records provided by the cruise industry, they paid approximately \$2.0 million in bed, and property and real estate tax to the Municipality of Anchorage (MOA).

Table 4: Local Tax Revenues

Tax Type	Revenues
Bed Tax	\$1,879,468
Real Property and Real Estate	\$136,656
Total Local Tax Revenues	\$2,016,124

Source: McDowell Group estimates, Municipality of Anchorage.

Bed Tax

The Municipality of Anchorage has an 8 percent bed tax on Anchorage accommodations. According to municipal officials, \$10,036,706 in bed tax revenues was collected in 1999. Based on \$23.5 million spent on hotel accommodations by the cruise industry for its passengers, the cruise industry generated \$1.9 million in bed tax for the city. Cruise industry passengers account for approximately 18.7 percent of bed tax revenue generated.

Property and Real Estate Tax

The cruise industry owns and, or leases property within Anchorage. Only facilities directly linked to cruise-related activities were included in the local government revenue. This includes facilities owned and operated by the cruise industry to serve their clients; that is their office space and transportation maintenance facilities. It does not include hotel properties. The total tax revenues paid to the Municipality of Anchorage in 1999 for both real property and real estate was \$136,656.

The indirect impact from the cruise-related activity on the property and real estate tax for all hotels used by the cruise passengers, including the Westmark Anchorage, is captured in the multiplier effect for hotel expenditures. It is estimated that the indirect impact is between \$250,000 and \$350,000 on local property and real estate tax revenue.

State Taxes and Fees

There are several state taxes and fees that the cruise industry pays. These include corporate income tax, business license fees, motorcoach registration and licensing fees, and railroad and airport system fees. In 1999, the cruise industry generated \$147,005 in state revenues. Without a larger survey of the State's spending, an estimate of how much of the cruise industry's portion of state revenue returns to Anchorage cannot be substantiated. Reasonable estimations of two revenue streams, the Alaska Railroad Corporation and the Ted Stevens Anchorage International Airport, can be determined with more certainty.

Alaska Railroad Corporation

Due to the unique relationship between the railroad and the state (the railroad is a quasi-government business), all Alaska Railroad revenues go back into the Alaska Railroad budget, and not into the state's general fund. This is an important distinction. To emphasize this, Alaska Railroad revenues were included in the transportation expenditure category of this report.

The Alaska Railroad has a proprietary agreement with both Holland America Westours and Princess Tours. These two cruise companies own their own rail cars. Holland America Westours has a separate contract with the Alaska Railroad to maintain their cars. Both companies have a contract with Alaska Railroad to pull their cars. They also have a ground lease agreement for year-round storage of their cars in Anchorage.

The cruise industry paid the Alaska Railroad \$4.7 million in 1999. The Alaska Railroad Corporation estimated that approximately 80 percent of its operation expenditure is based in Anchorage. Therefore, the study team estimates that 80 percent, or \$3.8 million, of their payments to Alaska Railroad is a direct impact on the Anchorage economy.

Ted Stevens Anchorage International Airport

The state's international airport system operates the airport in Anchorage. Like the Alaska Railroad, the International Airport System is a self-supporting operation of the state. This means it does not receive state funding and its revenues are not funneled into the state general fund.

The Ted Stevens Anchorage International Airport accounted for \$10,531 of concession and administrative fees paid by the cruise industry. This amount was included in the state government expenditure figure.

Federal Government

Similar to the circumstances with state revenue generated by the cruise industry, it is difficult to substantiate the amount of federal government revenue that remains in the local economy. In 1999, the cruise industry paid \$16,800 to U.S. Customs. Other federal corporate taxes were paid for the industry's national operations. The study team did not attempt to estimate how much of these payments were generated by activity in Anchorage, or how these payments were distributed nationally.

Payroll

The cruise industry reported that it spent \$7.1 million on personnel services (payroll) during 1999. No breakout of benefits payments was made available to the study team. This payroll figure accounts for all full-time, part-time, seasonal and year-round employment.

Cruise Passenger Expenditures

The money cruise passengers pump into the Anchorage economy as they purchase goods and services during the course of their visits generates a significant economic impact. Estimated cruise passenger spending in Anchorage totaled \$27.6 million.

The estimated spending by cruise passengers while in Anchorage is based on *Alaska Visitor Statistics Program* expenditure data collected in 1993. This is the most recent data available regarding cruise passenger spending and provides the base for estimating 1999 cruise visitor spending.

In 1993 cruise passengers comprised nearly one-third of total visitor volume to Anchorage. It is possible to get an idea of the type of spending done by these visitors by reviewing spending patterns of all Anchorage visitors, including those not taking a cruise. The table below shows expenditures by category for all Anchorage visitors from a special data run from the 1993 study.¹ Total spending by all Anchorage visitors was approximately \$162 million. The lodging category absorbed the greatest amount of spending capturing \$50 million. The second largest spending category was transportation approximating \$38.5 million.

The table below is an update of Anchorage visitor expenditures by spending category updated to 1999 dollars using the Anchorage Consumer Price Index. Although there could have been some shifts in spending among the categories, there is no evidence to justify altering the proportions at this time. The lodging category remains the largest encompassing nearly 31 percent of total spending. The second largest category is transportation.

¹ *Anchorage Visitor Profile, Summer 1993*. By the McDowell Group for the Anchorage Convention & Visitors Bureau, September 1994.

Table 5:
Total Expenditures by Category
Summer 1993 Anchorage Visitors, in 1993 and 1999 dollars

Spending Categories	1993 Total Expenditures (millions of dollars)	Total 1999 Expenditures (1993 dollars converted to millions of 1999 dollars)
Lodging	\$50.3	\$56.3
Transportation	38.5	43.1
Tours/Recreation	16.1	18
Food/Beverage	29.2	32.7
Gifts/Souvenirs	18.7	20.9
Personal Expenses	4.8	5.4
Clothing	4.9	5.5
Business Expenses	0.1	0.1
Total Instate Expenditures	162.5	182.0

Source: Alaska Visitor Statistics Program, Alaska Visitor Expenditures, Summer 1993, Anchorage Visitor Profile, Summer 1993 prepared by the McDowell Group.

Source: Prepared by the McDowell Group.

In addition the database provided cruise mode spending for all Anchorage visitors. The estimated amount spent by each cruise passenger per trip was \$255 in summer 1993. This amount includes spending made on behalf of the cruise industry for their clients as well as the out of pocket purchases made by the visitors.

In order to update the past expenditure data, the McDowell Group used several analytical methods employing the 1993 AVSP data to determine cruise out-of-pocket expenditures for a typical two-day, one-night stay in Anchorage. All out-of-pocket purchases made outside of Anchorage were eliminated. The detailed analysis resulted in an out-of-pocket spending by Anchorage cruise visitors that ranged from \$85 to \$95 per person. Based on further analysis, the study team made some adjustments to the initial range, and concluded the actual out-of-pocket expenditures for Anchorage cruise visitors is likely between \$85 and \$95 per person per trip. For purposes of this study the average of \$90 per person per trip is used.

Industry experts were contacted for their opinions on changes in spending patterns since the 1993 study. Based on these discussions, the team surmised that time spent in Anchorage overall has changed little. Accepting this, the team chose converting the 1993 spending data to 1999 dollars to reflect the change in cost due to inflation.

Once converted to 1999 dollars, the amounts shift upward approximately 12 percent. The table below exhibits the varied cruise spending amounts based on the ranges cited above. Out-of-pocket visitor expenditures range between \$95 and \$106. For this study, the average of \$100 per person per trip is used. This means that by using this spending estimate along with the 275,790 Anchorage cruise-related visitors, total cruise passenger expenditures were \$27.6 million.

Table 6:
Anchorage Cruise Visitor Out-of-Pocket Expenditures,
Per person/per trip
In 1993 and 1999 Dollars

Type of Cruise Passenger	1993	1999
Cruise Combined with Air Passenger	\$85	\$95
Cruise Combined with Ground Tour Passenger	\$95	\$106
Average	\$90	\$100

Source McDowell Group estimates based on Alaska Visitor Statistics Program spending data and Anchorage Consumer Price Index.

Additional Economic Impacts

The cruise industry further impacted Anchorage's economy by its charitable donations, and the membership fees paid to local organizations.

Charitable Contributions

In 1999, the cruise industry made in-kind and cash contributions to more than 80 non-profit organizations in Anchorage. These non-profit organizations ranged from church groups to social service organizations to education scholarships.

Table 7:
In-kind and cash donations (1999)

Charitable donations (1999)	Amount
In-kind (cruises, bus transportation, lodging)	\$224,227
Cash (scholarships, etc.)	\$140,410
Total contributions	\$364,637

Membership Organizations

The cruise industry is also involved with local civic and tourism organizations. An estimated \$66,434 was spent on these memberships. Memberships include: Anchorage Convention and Visitors Bureau, Anchorage Downtown Partnership, Anchorage Chamber of Commerce, Anchorage Museum Association, Green Star Inc., and Commonwealth North. State-wide organizations headquartered in Anchorage include: Alaska Tourism Industry Association (formerly Alaska Visitors Association), Alaska Miners Association, Alaska State Chamber of Commerce, Resource Development Council, and the Alaska Snowmobile Representative Alliance.

Direct Employment

Employment is a common measure of economic impact. The employment of the cruise industry is largely seasonal and fluctuates dramatically. Most of the cruise industry employment occurs during the five-month summer season. Based on Alaska Department of Labor and Workforce Development monthly employment reports, Anchorage summer season employment peaks with approximately 597 jobs. Most of these people are employed only for the summer season and may be full-time or part-time. This number drops dramatically for the seven remaining months. The industry employs approximately 46 people. Most of these are employed year-round, full-time. Annual average direct employment is estimated at 280, assuming an average annual salary of \$25,000 for cruise industry employment.

According to the cruise companies, the total number of jobs created directly over the whole year is 949 jobs. This figure would include all part-time, full-time, and seasonal hires in Anchorage.

The types of occupations employed include: managers, administration and clerical workers, luggage handlers, drivers, mechanics, cleaners, and tour guides.

As noted earlier, indirect impact is sometimes referred to as a “ripple effect” or a “multiplier effect.” Just as the cruise industry, its employees and customers spend money at Anchorage businesses, those businesses employ others and purchase goods and services, which in turn generate additional jobs and expenditures. The repeated rounds of spending produce a multiplier effect that increases the direct impact by a substantial amount.

A straight-forward way to determine indirect impact is to apply a standard multiplier. For the purpose of this study, McDowell Group has used ISER’s multipliers. While other regional multipliers - most notably the U.S. Department of Commerce’s Regional Multipliers and the IMPLAN model - did produce similar results, the study team chose ISER’s multipliers.

Multipliers reflect the fact that money circulates through an economy at different rates depending upon the type of business at which money is spent and upon the economy in question. Appropriate final demand multipliers were applied to various expenditures and the effects were summed to determine the total indirect impact of the cruise industry on Anchorage’s economy.

Output

The “output” figures refer to the value of the cruise industry’s total production. After multiplying expenditures by the appropriate multiplier, it has been estimated that \$103 million in expenditures resulted in \$168 million in total economic activity.

Earnings

The “earnings” estimates shows that \$103 million in expenditures by the cruise industry generate total wages and salaries of \$51 million throughout the economy.

Employment

The regional multipliers developed by the ISER model can be used to estimate the economic impact of an activity in terms of employment as well as output and earnings. Purchasing by the cruise industry in Anchorage – and expenditures by employees and customers – create jobs and support the income of people who work in the businesses affected by cruise industry spending.

The total employment impact of cruise industry spending in Anchorage is 2,040 jobs throughout the economy. This figure is based on direct expenditures of \$103 million producing 2,040 jobs. Of these 2,040 jobs, 260 were related to the activity at the Ted Stevens Anchorage International Airport and 770 jobs to the business generated by visitor out-of-pocket spending in Anchorage.

Impacts by Sectors of the Economy

Based on expenditures for goods and services, the following sectors are most affected by cruise industry spending: hotels, transportation, and wholesale and retail trade.

Table 8: Indirect Sector Impacts of Cruise Industry Expenditures in Anchorage, 1999

Sector	Output (\$M)	Percent of Total Output	Earnings (\$M)	Percent of Total Earnings	Indirect Employment (number of jobs)	Percent of Total Indirect Employment
Transportation	\$19,754,273	25.1%	\$5,120,733	22.0%	144	15.2%
Communication	379,089	0.5	106,059	0.5	3	0.3
Utilities	80,714	0.1	10,067	0.04	0	0.0
Wholesale/Retail	8,717,797	11.1	3,182,771	13.7	124	13.1
FIRE	967,371	1.2	340,575	1.5	11	1.2
Services	5,153,559	6.5	1,823,591	7.8	75	7.9
Hotels	38,951,984	49.4	11,229,824	48.3	556	58.6
Local Government	4,497,973	5.7	1,314,513	5.7	34	3.6
State and Federal Government	354,768	0.4	104,633	0.5	2	0.2
Total	\$78,857,528	100.0%	23,232,766	100.0%	949	100.0%

Additional Indirect Impact

In addition to the indirect impacts discussed above, there are indirect impacts from payroll, visitor expenditures, and airport economic activity that can be accredited to the cruise industry in Anchorage.

Payroll

As seen in the section for direct spending by the cruise industry, payroll paid in Anchorage was \$7.1 million. When applying the payroll (or also known as household) multiplier, this \$7.1 million generates an additional \$5.7 million in output impacts, \$1.6 million in earning impacts, and 58 indirect jobs.

Visitor expenditures

Total visitor expenditures were an estimated \$27.6 million. It is assumed that most of this spending is done in the services and retail sectors. Using an average multiplier for these two sectors, the indirect benefit of visitor expenditures is \$47.2 million in output impacts, \$17.4 million in earnings impacts, and 770 indirect jobs.

Ted Stevens Anchorage International Airport

As stated earlier, no data was available to determine the cruise passenger spending on domestic and international airfares and how much of this amount could be counted as an economic gain for Anchorage. But the Ted Stevens Anchorage International Airport benefits from the passengers that pass through it, and the economic activity it generates. This activity also benefits numerous businesses in Anchorage.

In order to credit a portion of cruise passenger air travel expenditures and their activity at the airport, the study team chose to examine a report published by ISER entitled, "*Anchorage International Airport 1998: Economic Significance.*" In this report, it stated non-Alaska air visitors generated 1,786 total jobs (both onsite and offsite).² Total payroll impact by the non-Alaska visitors was \$53 million.³

Using arrival count data generated by McDowell Group, it is estimated that there was approximately 1.4 million non-Alaska visitor entries and exits via Anchorage in 1999. The study team estimated that approximately 236,772 cruise passengers used the airport either to arrive for or depart from their cruise. Based on these figures it was determined that 260 jobs, both onsite and offsite, for the Ted Stevens Anchorage International Airport and \$9.2 million in payroll was generated.

² Onsite includes flight crews based in Anchorage. Offsite includes impact of flight crew layovers.

³ Goldsmith, Scott. Anchorage International Airport 1998: Economic Significance. University of Alaska Anchorage Institute of Social and Economic Research. p. 19.

Leakage of Cruise-Related Spending

Introduction

“Leakage” refers to the money generated in a community that is not, in turn, spent in the community, but is taken or spent elsewhere. Alaska is an economy where most of what is produced in the state is exported and most of what is consumed in the state is imported. As a result, Alaska probably leaks a higher proportion of dollars from its economy than any state other than Hawaii.

Leakage is inherently accounted for by the use of economic multipliers. The original dollar is “turned over” in a series of transactions of decreasing amount as increasing leakage occurs in each successive exchange. The total of these decreasing amounts is termed a multiplier.

This study does not quantify in any detail leakage of cruise-related dollars. Instead, its primary focus has been to quantify the direct economic impacts of employment, wages, and visitor spending. However, the following discussion is included to clarify the issue of leakage in Alaska and in regard to cruise-related activity.

In the case of the cruise-related visitor industry, there are three sources of leakage, all of them shared with other Alaska industries:

- *Wage leakage* results from spending outside Alaska by both residents and non-residents, and from non-residents taking a portion of their earnings to their home state following seasonal employment.
- The second source of leakage is termed “*cost-of-goods-sold leakage*.” This refers to the purchase of goods from outside Alaska that is re-sold in the state to cruise passengers, crew, and cruise companies.
- The third form of leakage is *service leakage*. In the case of the cruise-related industry, this refers to leakage that occurs in the selling and delivery of tour services to cruise passengers. While service providers do not immediately export most of their income by paying for cost-of-goods-sold, some leakage does occur.

Wage Leakage

Wage leakage occurs in all Alaska employment from three primary sources: payroll deductions (such as taxes), savings (where money is held out of circulation), and spending outside the local area.

According to the Department of Labor’s “Residency Analysis of Alaska’s Workers by Firm-1998,” cruise-related businesses hire anywhere from 5 percent to 80 percent of their labor force from outside Alaska.⁴ The bulk of these businesses show a non-resident labor component that ranges from 10 percent to 35 percent. Another DOL report on non-resident rates shows that the 1998 average for all industries in Alaska is 20 percent, while the year-round average for the visitor industry is 25 percent non-resident.⁵ The following table shows a comparison of non-resident rates among private sector industries.

⁴ “Resident/Nonresident Hire,” by Jeff Hadlund, *Alaska Economic Trends*, February 2000, page 10.

⁵ *Residency Analysis of Alaska’s Workers by Firm – 1998*, Alaska Department of Labor and Workforce Development, February 2000.

**Table 9: 1998 Non-Resident Rates
Private Sector Industries**

Sector	% Non-Resident
Food processing	72%
Hotels	33
Lumber/Wood Products	30
Oil and Gas	27
Water Transportation	27
Amusement & Recreation Services	27
Eating and Drinking	26
Business Services	22
Air Transportation	22
Metal Mining	22
Heavy Construction	20
Motion Pictures	20
Misc. Repair Services	19

Source: Alaska Department of Labor

Cost-of-Goods-Sold Leakage

The second source of cruise industry leakage would be similar to that of a grocery store, where the goods that are purchased in Alaska from local businesses are, in turn, purchased from outside of Alaska. This same source of leakage applies to cruise visitors purchasing goods in Alaska shops, such as T-shirts, that are not manufactured in Alaska. Since the mark-up in gift shops is higher than in grocery stores, there is probably less leakage when gift shops sell a T-shirt to a visitor than when a grocery store sells paper towels to a resident.

Some purchases of goods by passengers, crew, and cruise lines are of Alaska-made products. For example, some of the arts and crafts sold in gift shops are made in Alaska, and the seafood purchased by cruise lines for on-board consumption is also Alaska-produced. In this study, no estimate is made of the portion of sales of goods produced in Alaska versus those produced outside the state. As a result, there is no specific calculation of leakage due to cost of goods sold. As in other sectors of the Alaska economy, a significant portion of goods sold to visitors, crew, and cruise lines are more than likely to be manufactured outside the state.

Service Leakage

A third source of leakage results from purchases of visitor services, primarily tours, delivered to visitors in Alaska. For example, a cruise visitor will pay a cruise company \$100 for an adventure tour in Anchorage operated by a local company. The cruise company is entitled to a 25 percent sales commission, which does not reach the Alaska economy. Only \$75 is paid to the local company. Therefore, the local economy immediately experiences a 25 percent leakage. The local tour operator then takes the \$75 remaining and in turn, pays for the goods and services that he must purchase in order to provide the adventure tour experience.

While this leakage may not approach the grocery store example, the tour operator may have made some purchases from outside the state, such as marine tour vessels, liability insurance, and outside travel for marketing purposes. The scope of this study does not include a specific analysis of what local tour companies purchase from within and outside Alaska. Therefore, the leakage from the third level of transactions is not known.

Cruise Industry Outlook

Overall, Cruise Lines International Association (CLIA) is optimistic about the future North American cruise market. In a recent publication, it reported:

The cruise industry is young. Since 1970, an estimated 76 million passengers have taken a deep-water cruise (2+days). Of this number, 60 percent of the total passengers have been generated in the past 10 years. Thirty-three percent of total passengers have been generated in the past five years alone. Of those who have cruised in the past five years, the average number of cruises per person has been 2.4 in this same time frame or one every two years.

The cruise market potential is huge. Over the next five years, the cumulative market potential for the cruise industry is \$54-\$97 billion. By year-end 2000, we project that approximately 6.5 million passengers per year will cruise on an annual basis. Taking a cruise is a dream of 56 percent of all adults with the highest interest being exhibited by the emerging baby-boomer category. To date, only 11 percent of the US population has ever cruised.⁶

It is assumed that the national trend applies to the Alaska market and by default to the Anchorage market also. The healthy growth of the Alaska cruise industry in general and continued industry investment in Alaska such as hotels, motor coaches and rail cars are clear indicators of continued optimism.

Alaska as a destination has a high level of awareness among potential cruise passengers and continues to receive additional attention through highly visible marketing campaigns. These are effective and continue to create interest and awareness in Alaska as a cruise destination. Further, port content, glaciers and scenic cruising will remain priorities of the cruise lines. While the industry has not reported any forecasting of their markets in 2010 and 2020, it is assumed that the potential for growth remains dependent on its expanded capacity and price competitiveness.

There are some factors that could limit growth in Alaska. Crowding in some ports and limited port facilities (not enough dock space) will be a deterrent to additional growth in some communities. Alaska's port communities for the most part are small and are greatly impacted by the influx of cruise visitors during the summer months. Several have invested in new dock facilities and are now able to comfortably accommodate multiple vessels at the dock. In Seward, the Alaska Railroad started construction of a new dolphin last year, and plans to complete an overhaul of the existing Railroad dock as a passenger-only facility by the fall of 2001. These projects will expand the dock at Seward to handle two cruise ships at a time, along with other infrastructure improvements. In Whittier, Ahtna, Inc. is poised to build a new cruise ship dock. They have received permits from the state to dredge and fill an area that will include a breakwater to be used for cruise ship tie-ups.

⁶ *Cruise Industry Overview, Marketing Edition, February 2000, Cruise Lines International Association.*

Another factor is the congestion created by the influx of cruise passengers and crew in small communities. Traffic in the streets and on sidewalks is very heavy and can be difficult to negotiate when vessels are in town. Good examples of this overcrowding phenomenon are evident in Ketchikan and Juneau. Both cities are struggling with methods for handling passenger and vehicle flows in the hearts of the core downtown areas where the congestion is at its greatest on five-ship days. This particular phenomenon is less notable in a large city such as Anchorage.

The continued pressure on some small communities will contribute to political conditions that could possibly limit growth in the future.

Cruise capacity and traffic outlook

According to the Cruise Lines International Association (CLIA), Cruise Line Agencies of Alaska, and other industry sources, six of the large cruise lines (Princess Tours, Royal Caribbean, Celebrity, Carnival Cruises, Radisson Seven Seas, and Holland America Westours) and Cruise West plan on adding more ships to Alaska over the next six years. The following table shows reported new ships built over the next six years planning to operate in Alaska. The table also shows the plans for withdrawal or retiring of ships. Overall, the increase in the number of berths is shown to be 33 percent, with an average annual growth rate of 5 percent. It is possible that the cruise lines may change these ships' intended routes. It is also possible that there may be ship withdrawals during this time period that have not yet been reported to CLIA. But this seems unlikely, considering that all cruise ships visiting Alaska in 2000, except for one, were built or refurbished in the last ten years.

It is unclear how these ships will affect the level of cruise passengers to Anchorage. However, according to anecdotal information, bookings for the 2001 season appear to be solid. Recent downturns in the stock market and the slow resolution to the 2000 presidential election have been cited as possible factors for slower bookings. A possible softening of the economy is an additional factor affecting vacation planning over the long-term. In past years, poor booking rates spurred special promotions and discounting that eventually filled vessels substantially. It is likely that the industry will find solutions such as this to fill vessels in a potentially soft season.

**Table 10:
Additions and Withdrawal of Cruise Ships Operating in
Alaska, 2001-2006**

Year	Cruise Line	New Ships	Berth Capacity	Total Alaska Berths	Annual Average% Increase
2000		2000 Sub-total		36,750	
2001	Royal Caribbean	Radiance of the Seas	+2,000		
	Celebrity	Infinity	+1,950		
	Holland America	Zaandam	+1,440		
	Carnival	Spirit	+2,100		
	Radisson	Mariner	+700		
	Cruise West	Spirit of Oceanus	+100		
	Celebrity	Galaxy (withdrawal)	-1,840		
	Holland America	Nieuw Amsterdam (retiring)	-1,200		
	Carnival	Jubilee (withdrawal)	-1,500		
	Radisson	Navigator (withdrawal)	-450		
	Princess Tours	Sky Princess (withdrawal)	-1,200		
		2001 Sub-total	+2,100	38,850	+6%
2002	Princess Tours	Unnamed	+2,300		
	Royal Caribbean	Brilliance of the Seas	+2,000		
	Princess Tours	Not announced (withdrawal)	-1,950		
		2002 Sub-total	+2,350	41,200	+6%
2003	Holland America	Unnamed	+1,800		
	Holland America	Unnamed	+1,800		
	Princess Tours	Unnamed	+1,950		
	Holland America	Unnamed (withdrawal)	-1,400		
		2003 Sub-total	+4,150	45,350	+10%
2004	Holland America	Unnamed	+1,800		
		2004 Sub-total	+1,800	47,150	+4%
2005	Holland America	Unnamed	+1,800		
		2005 Sub-total	+1,800	48,950	+4%
2006	(none reported)		0		0
		2006 Sub-total	0	48,950	0%
I		2001-2006 Total	+12,200	48,950	+5%

Source: Cruise Industry News Annual 2000; Cruise Lines Agencies of Alaska; industry sources

Another indicator of positive long-term growth is the cruise industry's continued investment in ground operation in Alaska. Over the past few years, the industry has invested in new hotel construction or expansion in Fairbanks, Cooper Landing, Denali and Talkeetna. These projects were developed primarily to serve their cruise tour passengers. New hotel properties are also being developed in and around Anchorage. Royal Caribbean will be making a substantial investment and begin competing with the well-entrenched ground operations of Tour Alaska Inc. (Princess Tours) and Grayline of Alaska (Holland America Westours) by beginning its own ground tour company. Their capital investment in 20 motor coaches and two rail cars is another indicator that the cruise industry foresees a positive outlook over the long-term.

Significant changes in the purchasing or expenditures patterns of the cruise industry in Anchorage are not anticipated. However, there are two new sources of government revenue that cruise industry activity may have an impact. The first source is the new local tax on rental cars. Effective October 2000, the Municipality enacted an 8 percent tax on the total fee and cost for rentals of a vehicle in Anchorage. There are some cruise passengers who independently rent a vehicle during their stay in Anchorage. The number of these passengers is relatively small and little information is available on the size of the market or their spending and travel patterns.

The second source of new government revenue is to the state. The Ted Stevens Anchorage International Airport received approval from the Federal Aviation Administration to collect a "passenger facility charge" of \$3 per enplaning passenger in Anchorage. The program was initiated October 1, 2000. Given the current level of cruise passenger enplanement activity, new state revenue is estimated to exceed \$350,000 in 2001.

Appendix

The table that follows shows all direct expenditures and indirect economic benefits of the cruise industry in Anchorage.

Expenditure Category	1999 Expenditures (\$)	Adjusted Expenditures (1994 \$)	Output Multipliers*	Earnings Multiplier*	Employment Multiplier*	Output Impacts (\$)	Earnings Impact (\$)	Employment Impacts (# of Jobs)
Goods and Services Purchases								
Transportation	\$11,828,906	\$10,728,193	1.67	0.4329	13.43	\$19,754,273	\$5,120,733	144
Communication	267,152	242,293	1.419	0.397	11.05	379,089	106,059	3
Utilities	44,941	40,759	1.796	0.224	5.51	80,714	10,067	0
Wholesale and Retail	5,256,435	4,767,309	1.6585	0.6055	26.06	8,717,797	3,182,771	124
Finance	544,754	494,063	1.772	0.624	21.88	965,304	339,926	11
Insurance	928	842	1.846	0.681	20.78	1,713	632	0
Real Estate	310	281	1.141	0.054	1.92	354	17	0
Services	3,064,858	2,779,664	1.6815	0.595	27.09	5,153,559	1,823,591	75
Hotels	23,493,356	21,307,234	1.658	0.478	26.08	38,951,984	11,229,824	556
Goods and Services Subtotal	44,501,640	40,360,638				74,004,787	21,813,621	913
Membership Organizations	66,434	60,252						
Charitable Donations (in-kind and cash)	364,637	330,707						
Goods and Services Total	44,932,711	40,751,597				74,004,787	21,813,621	913
Government Revenue								
Municipality of Anchorage Bed Tax (8% of hotel expenditures)	1,879,468	1,704,578	2.231	0.652	18.69	4,193,093	1,225,413	32
Local Government (property and real estate, fees)	136,656	123,940	2.231	0.652	18.69	304,880	89,100	2
State Government	147,005	133,326	2.231	0.652	18.69	327,968	95,847	2
Federal Government	16,800	15,237	1.63	0.523	15.56	27,384	8,786	0
Total Government Revenue	2,179,929	1,977,081				4,853,325	1,419,147	37
Payroll (including benefits)	7,090,480	6,430,691	0.809	0.22	9.09	5,736,198	1,559,906	58
Cruise Passenger Out-of-Pocket Expenditures (275,790x\$100)	27,579,000	25,012,697	1.7118	0.63	30.78	47,209,732	17,374,770	770
Ted Stevens Anchorage International Airport Impact***	21,377,551	19,388,310	1.67	0.43	13.43	35,700,510	9,174,915	260
Total Expenditures	\$103,159,671	\$93,560,376	1.7**	0.49**	17.4**	\$167,504,552	\$51,342,358	2,039

* UAA ISER regional multipliers

** average multiplier

***Direct expenditures, and indirect earnings and employment figures were based on calculations using McDowell Group visitor data and UAA ISER figures for employment and payroll impacts at the Ted Stevens Anchorage International Airport.